

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7566

Petition of Town of Stowe Electric Department)
Pursuant to 30 V.S.A. § 108(c) for Approval of)
Refinancing of Vermont Transco, LLC, Specific)
Facilities Membership Units)

Order entered: 10/28/2009

I. INTRODUCTION

On September 21, 2009, the Town of Stowe Electric Department ("Stowe" or "the Company") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for approval pursuant to 30 V.S.A. § 108(c) to refinance \$18.7 million in non-amortizing indebtedness ("Member Unit Financing") related to its December, 2008, purchase of 1,870,000 Specific Facilities membership units ("LCP Member Units")¹ in Vermont Transco, LLC ("Transco"), in compliance with the terms of the Uncontested Settlement Agreement ("Settlement") between participating utilities related to construction of the 115 kV Lamoille County Project ("LCP" or "Project").² Stowe plans to refinance the original Member Unit Financing with debt issued pursuant to private placement using the KeyBanc Capital Markets ("KeyBanc") group in order to obtain a lower interest rate. The Petition was supported by the testimony of Patrick Householder, Controller for Stowe, and by accompanying exhibits.

On October 1, 2009, the Clerk of the Board issued a letter informing Stowe that additional financial information in the form of Stowe's audited statements for fiscal year 2008

1. Equity units are generally referred to as "member units" in the Operating Agreement for Vermont Transco, LLC.

2. The Lamoille County Project received a Certificate of Public Good from the Board in Docket No. 7032 on March 16, 2006. LCP members consist of Stowe, Town of Hardwick Electric Department, Village of Hyde Park Electric Department, Village of Johnson Water & Light Department, and Village of Morrisville Water & Light Department. Non-municipal participants in the Project are Green Mountain Power Corporation, Central Vermont Public Service Corporation, and Washington Electric Cooperative, Inc.

and internally generated financial statements for the third quarter ending September 30, 2009, was needed in order to complete the review of the Petition.

On October 5, 2009, Stowe filed the additional financial information except for the September, 2009, quarterly statements. In its cover letter, Stowe explained that the September, 2009, quarterly statements would not be available until November 1, 2009, and submitted its June, 2009, second quarter statements instead.

On October 15, 2009, the Vermont Department of Public Service ("DPS") sent a letter with attached Determination Under 30 V.S.A. § 202(f) to the Board recommending that the Board approve the Petition without hearing and finding that the refinancing of long-term debt as set forth in the Petition is consistent with the *Vermont Electric Plan* pursuant to 30 V.S.A. § 202(f).

On October 16, 2009, the DPS submitted a letter to the Board stating that it believes that the Petition is consistent with the general good of the state, and recommending approval of the Petition without a hearing. The DPS recommends including in the approval a condition requiring that Stowe file an anticipated accounting-order request within 30 days of the final closing with KeyBanc and its internally-prepared financial statements for the third quarter ending September 30, 2009, no later than November 6, 2009.

The parties have waived the opportunity for review of the Proposal for Decision, briefing, and oral argument, in accordance with 3 V.S.A. § 811.

I have reviewed the Petition, the supporting testimony, and accompanying documents. I conclude that approval of Stowe's Petition pursuant to 30 V.S.A. § 108(c) is appropriate and that such approval may occur without hearing. Based upon the evidence of record and the testimony and exhibits presented in this docket, and the DPS letters of October 15 and 16, 2009, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

II. FINDINGS

1. Stowe is a company as defined by 30 V.S.A. § 201, and a municipal electric utility within the meaning of 30 V.S.A. Chapters 14 and 79. Petition at 1.

2. As part of the Settlement, Transco offered to Stowe, among other participants, a particular number of Membership Units in order to help Stowe offset the LCP Specific Facilities costs that it is responsible for under the Settlement. Petition at 1.

3. On October 30, 2008, in Docket No. 7458, the Board approved the original Member Unit Financing for Stowe's purchase of the Membership Units in the amount of \$18.7 million. Stowe purchased the Membership Units on December 30, 2008. Petition at 1, 2.

4. The original Member Unit Financing consisted of a ten-year non-amortizing variable rate bank loan which included an interest rate hedge (or interest rate swap) in order to fix the interest rate at 6.6%. The interest rate hedge is required under the terms of the Settlement which specifically requires the term of the financing to be a ten-year non-amortizing loan with a fixed rate of interest. Householder pf. at 3; Petition at 2.

5. Based on market conditions as of August 31, 2009, KeyBanc estimates that the indicative rate for a non-amortizing loan maturing on December 30, 2018, the maturity date of the Member Unit Financing, to be 5.65%. The savings in interest expense resulting from a decrease in the interest rate from 6.6% to 5.65% would be approximately \$177,650 per year. Pursuant to the Settlement, the savings would be fully allocated to the non-municipal participants of the LCP since their share of Specific Facilities costs are not capped; therefore, Stowe would not benefit directly from the reduced rate. Householder pf. at 4; exh. Stowe-Householder-2; Stowe e-mail dated 10/22/09.

6. The interest-rate hedge as of August 31, 2009, had a value of \$1,005,500. Refinancing the Member Unit Financing would eliminate the need for the hedge allowing it to be sold by Stowe. Stowe estimates that after selling the hedge and paying loan origination and legal fees from the sale proceeds, Stowe would realize net proceeds from the sale of approximately \$605,000. Householder pf. at 4.

7. Stowe intends to amortize the \$605,000 for the ten-year period it is required to pay the annual specific-facility cost of \$1,100,000, thus reducing that cost by \$60,000 per year. Stowe will request that the Board approve an accounting order to that effect in a separate filing. The request for the accounting order will be filed once the proposed refinancing has been approved by

the Board and the voters of the Town of Stowe. Householder pf. at 4; exh. Stowe-Householder-3.

8. Stowe estimates annual savings for Vermont ratepayers resulting from the refinancing to be approximately \$237,650 (\$177,650 in interest expense savings plus \$60,000 from the sale of the hedge) over the remaining nine-year term of the loan. Pursuant to the Settlement, the benefit of the lower interest expense would accrue to the non-municipal LCP participants, primarily Green Mountain Power Corporation, since the Specific Facilities costs are capped for the municipal participants and any cash dividends provided by the LCP Membership Units in excess of the debt servicing requirements must be credited back to reduce the costs of the Project. The benefit from the sale of the hedge would accrue to Stowe. Householder pf. at 5; Stowe e-mail dated 10/22/09.

9. The requested refinancing with KeyBanc involves only the original Member Unit Financing in the amount of \$18.7 million. The only change would be to lower the interest rate from 6.6% to 5.65%. The original term and amount of the loan will remain the same. Householder pf. at 5.

III. DISCUSSION & CONCLUSION

Based on the evidence, I conclude that Stowe's request to refinance its original Member Unit Financing in an amount not to exceed \$18.7 million, in order to obtain a lower rate of interest, will be consistent with the general good of the state. The refinancing will allow Stowe to realize \$60,000 in annual savings in Specific Facilities costs from the sale of the interest rate hedge and allow ratepayers of the non-municipal LCP participants to benefit from the annual reduction in interest expense of \$177,650 which is contributed back to reduce the costs of the Project. Therefore, I find that approval of Stowe's request for the refinance of its long-term indebtedness as described above is consistent with the general good of the state and recommend that the Board issue an order to that effect.

The parties have waived their rights to file exceptions and present arguments under 3 V.S.A. §811. Therefore, the proposal for decision has not been served on the parties.

Dated at Montpelier, Vermont this 27th day of October, 2009.

s/Jay E. Dudley
Jay E. Dudley
Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are accepted and adopted.
2. The request for financing as set forth in the Town of Stowe Electric Department's ("Stowe") Petition in this docket and as described in the Findings is consistent with the general good of the State of Vermont.
3. Pursuant to 30 V.S.A. § 108(c), consent is hereby given to Stowe to refinance \$18.7 million in existing non-amortizing indebtedness used to finance its original purchase of 1,870,000 equity units from Vermont Transco, LLC, in compliance with the terms of the Uncontested Settlement Agreement, according to terms and rate consistent with the Findings above.
4. This Order does not constitute approval of Stowe's capital structure or of any particular capital or operating expenditure that may be implemented with the proceeds from the issuance of long-term debt contemplated in the Petition in this docket. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Vermont Public Service Board ("Board"), from reviewing or challenging such expenditures or Stowe's resulting capital structure.
5. Stowe shall file its anticipated accounting order request involving the ten-year amortization of \$605,000 in net hedge sale proceeds, as described in the Findings above, within 30 days of the final closing of the requested refinance with KeyBanc, and its internally-prepared financial statements for the third quarter ending September 30, 2009, no later than November 6, 2009.
6. Stowe shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.
7. Upon request, Stowe shall provide the Board and the DPS with a complete set of final executed documents.

